

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Com. Jobs, Econ Dev... Analyst: Roger Lackey Bill Number: AB 2977
Related Bills: See Legislative History Telephone: 845-3627 Introduced Date: 02-26-2002
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Enterprise Zones/Reconfiguration of Geographic Boundaries

SUMMARY

This bill would allow local governments to apply to reconfigure the geographic boundaries of an enterprise zone (EZ).

PURPOSE OF THE BILL

It appears that the purpose of this bill is to enable local governments to reconfigure EZs to attract new businesses.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Under the Government Code, existing state law allows the governing body of a city, county, or city and county to apply for designation as an EZ. Using specified criteria, the Technology Trade and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs meeting certain criteria may be extended to 20 years), and TTCA has designated 39 of the 42 EZs authorized under existing law. When an EZ expires, TTCA is authorized to designate another in its place. TTCA may approve the geographic expansion of enterprise zones up to 15% in size and, for certain small enterprise zones, up to 20% in size.

Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an EZ. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, specified employees of businesses operating within an EZ may claim a wage credit.

Board Position:

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<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Department Director

Date

Alan Hunter for GHG

03/21/02

THIS BILL

This bill would allow the governing body of a city, county, or both to apply to TTCA for the reconfiguration of the geographic boundaries of an existing EZ within its jurisdiction and would allow the TTCA to approve that application. The reconfiguration would have to be consistent with the EZ's existing size and subject to the following criteria:

- No reconfiguration would have the affect of moving a business out of an EZ,
- No more than 10% of the EZ may be reconfigured, and
- The governing body demonstrates the need for the reconfiguration based on unemployment statistics from the 2000 United States census tract, and the potential for the future development of jobs.

Any application for reconfiguration must be consistent with the purpose of the EZ laws.

This bill specifies that it should not be interpreted to extend the designation date of the enterprise zone.

The local agency that administers the reconfigured EZ would report to TTCA any increases of employment and investment by businesses granted tax incentives. That information would be included in TTCA's annual report to the Legislature.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 983 (Briggs 2001/2002) would allow the City Council of the City of Fresno to reconfigure the geographic boundaries of an existing enterprise zone. AB 983 failed to pass out of the Senate Revenue and Taxation Committee.

AB 51 (Briggs, 1999/2000) would have allowed the governing body of a city, county, or city and county to reconfigure the geographic boundaries of an existing enterprise zone. AB 51 failed to pass out of the Senate Appropriations Committee.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided by California's economic development areas. The number of economic development areas varies from state to state. No information was available indicating whether any of these states allow the boundaries of their economic development areas to be reconfigured as proposed by this bill.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

This bill is estimated to impact revenue as shown in the following table.

Revenue Impact Tax Years Beginning After December 31, 2002 Enactment Assumed After June 30, 2002 (\$ Millions)			
Fiscal Year	2002-03	2003-04	2004-05
	(1)	(5)	(9)

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses for reconfigured zones under the Personal Income and the Corporation tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

Total revenue losses for the existing 42 authorized zones (39 actually designated) were \$75 million (average of approximately \$2 million per zone) for tax year 1999.

This bill would result in additional revenue losses by allowing current out-of-area businesses and new businesses to claim enterprise zone tax benefits for a contiguous area of an existing zone. A reconfiguration would not remove a business from an enterprise zone. It was assumed that in 2002, a third of the zones would be prepared to reconfigure, another third by 2003, and all remaining zones by 2004.

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